

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE AND FEE CHANGES, 1997

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY
Docket No. R97-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 5, ITEMS 1-14, 17-20

The United States Postal Service hereby provides responses to the following items of Presiding Officer's Information Request No. 5, filed on November 6, 1997: 1-14, 17-20.


Each question is stated verbatim and is followed by the response. Responses to items 15-16 were unexpectedly delayed, but it is anticipated that they will be filed shortly.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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November 20, 1997

**RESPONSE OF POSTAL SERVICE WITNESS MUSGRAVE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 5**

1. Please refer to the following table which presents witness Musgrave's volume forecasts for Priority Mail and the annual growth rates implied by those forecasts.

a. Explain why the forecast growth rate for Priority Mail drops from 13.08 percent in GFY 1997 to 6.72 percent in TYBR (GFY 1998).

b. Also explain the low Priority Mail growth rates of 3.31 percent and 3.71 percent forecasted for TYAR (GFY 1998) and GFY 1999 respectively.

**Priority Mail Volume Forecasts and
Annual Growth Rates**

Item	Volume (Thousands)	Percent Change
GFY 1996 (Base Year)	937,273 <u>1</u>	
GFY 1997 (Before Rates)	1,059,882 <u>2</u>	13.08%
GFY 1998 (TYBR)	1,131,156 <u>2</u>	6.72%
GFY 1998 (TYAR)	1,094,946 <u>2</u>	3.31%
GFY 1999 (After Rates)	1,135,563 <u>3</u>	3.71%

1 FY 1996 RPW

2 USPS-T-8, Table 1 (Revised 8/18/97)

3 LR-H-125, "Before Rates and After Rates Forecasts
for Priority Mail and Express Mail," page 9
(Revised 8/18/97)

RESPONSE:

1. While the forecasted growth in Priority Mail depends on the values of each of the individual Postal quarterly multipliers, combining the multipliers into annual values for Postal rates, UPS rates, Economic, and Demographic impacts can be used to answer the question. The answer is based on the multipliers presented in Library Reference H-125. The accompanying spreadsheet (Library Reference H-306) shows the detailed calculations. The calculations I cite, in this response, are color coded in the spreadsheet. Multipliers are based on Postal quarters and it should be remembered that the total annual effect is obtained by multiplying the multipliers together. Converting the impact of the multipliers from Postal Fiscal Years to Governmental Fiscal Years results in rounding and averaging differences in the range of 0.02 to 0.05 (0.0002 to 0.0005) percent. The

Base Year used to produce the forecasts in the testimony are Postal quarters 96:3 through 97:2 equaling 991.266 million pieces, (See USPS-T-8, Table 1, Revised 8/18/97) rather than the PFY 1996 equaling 937.273, presented above in the POIR.

1a. Government Fiscal Years 1996 to 1997 Before Rates Volume

From the Base Year used in the testimony to GFY 1997 before rates, lower real Postal rates (Priority Mail and Parcel Post) resulted in increased volume of 1.09 percent. Short-run and long-run economic conditions resulted in a 2.51 percent increase in volume with population adding an additional 0.70 percent. UPS price increases resulted in a 1.86 percent increase in volume. The net result is an increase of 6.95 percent in GFY 1997 volume over the actual Base Year period used to produce forecasts in the testimony. The difference in Base Year periods accounts for the difference between 13.08% and 6.95%.

GFY 1997 Before-Rates to GFY 1998 (TYBR) Volume

The volume growth in the before-rates environment is approximately the same at 6.74 percent. From GFY 1997 before rates to GFY 1998 before rates, lower real Postal rates (Priority Mail and Parcel Post) would result in an increase in volume of 1.77 percent. Short-run and long-run economic conditions would result in a 2.05 percent increase in volume with population adding an additional 0.82 percent. UPS price increases would result in a 1.59 percent increase in volume. The net result would be a 6.74 percent increase in 1998 volume over 1997, if Postal rates did not increase.

1b. GFY 1997 Before-Rates to 1998 After-Rates Volume

From GFY 1997 before-rates to GFY 1998 after-rates, higher real Postal rates (Priority Mail and Parcel Post) would result in a decrease in volume of 1.38 percent.

Short-run and long-run economic conditions would result in a 2.01 percent increase in volume with population adding an additional 0.78 percent. Combining the economic and demographic impacts would result in a 2.81 percent impact. UPS price increases would result in a 1.55 percent increase in volume. The net result would be a 3.3 percent increase in GFY 1998 after-rates volume over GFY 1997, if rates proposed by the Postal Service were adopted. The decrease in growth is primarily the result of the proposed Postal rate increases.

GFY 1998 After-Rates to 1999 After-Rates Volume

From GFY 1998 after-rates to GFY 1999 after-rates, lower real Postal Rates (Priority Mail and Parcel Post) would result in an increase in volume of 0.47 percent. The small net impact results from the lagged effect of the previous price increases. Short-run and long-run economic conditions would result in a 1.19 percent increase in volume with population adding an additional 0.94 percent. Combining the economic and demographic impacts would result in a 2.14 percent impact. UPS price increases would also result in a 1.08 percent increase in volume. The net result would be approximately the same growth, at a 3.72 percent increase in GFY 1999.

In summary, the growth of GFY 1997 over the Base Year Period is 6.95 percent and is approximately the same as the GFY 1998 before-rates over GFY 1997 growth of 6.74 percent. The difference from 13.08 %, results from using the Base Year Period in the testimony rather than GFY 1996, as listed in the POIR. The reduced volume growth in the after-rates environment at 3.3 percent for GFY 1998 and 3.7 percent in GFY 1999 is primarily due to the proposed increase in Postal rates.

DECLARATION

I, Gerald L. Musgrave, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

G. MUSGRAVE

Dated: 11/20/77

**RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 5**

2. Please reconcile the FY 1996 volume for Certified Mail (269,730,120 transactions) listed in USPS LR-H-145, "FY 1996 Billing Determinants," Section K, Table 1, with the FY 1996 volume for Certified Mail (270,832,000 transactions) listed in FY 1996 RPW (revised 4/18/97).

RESPONSE:

The FY 1996 billing determinant volume for certified mail includes incoming certified pieces (260,108,209), incoming certified agency pieces (7,706,567), incoming certified congressional franked pieces (0), and certified USPS pieces (1,915,344), equaling 269,730,120. The FY 1996 RPW Report does not include the USPS pieces, but does include return receipt for merchandise volume (3,017,237).

**RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 5**

3. Please identify the source of the FY 1996 COD transactions shown in column 1, WP-5, USPS LR-H-206, "Diskettes of Witness Needham's (USPS-T-39) Testimony and Workpapers."

RESPONSE:

The "FY 1996 C.O.D. transactions" in WP-5 are from the FY 1993 C.O.D. billing determinants. Please see the attached revised workpaper which uses the FY 1996 billing determinants.

SPECIAL SERVICES COLLECT-ON-DELIVERY TEST YEAR 1998									
USPS-T-39 WP-5 REVISED 11/20/97									
REVENUES (\$000)									
PERCENT CHANGE 1/	AFTER RATES PROPOSED FEE	BEFORE RATES CURRENT FEE	FEES (\$)		TEST YEAR AFTER RATES	TEST YEAR BEFORE RATES	TRANSACTIONS (000)	VALUE:	
(8)	(7)	(6)	(5)	(4)	(3)	(2)	(1)	FY 1996	
14.29%	7,118	6,308	\$4.00	\$3.50	1,779	1,802	2,228	50	
11.11%	6,132	5,590	\$5.00	\$4.50	1,226	1,242	1,536	100	
9.09%	3,799	3,527	\$6.00	\$5.50	633	641	793	200	
7.69%	1,026	965	\$7.00	\$6.50	147	148	184	300	
6.67%	362	343	\$8.00	\$7.50	45	46	57	400	
5.88%	186	178	\$9.00	\$8.50	21	21	26	500	
5.26%	300	288	\$10.00	\$9.50	30	30	38	600	
ADDITIONAL SERVICES:									
REGISTERED C.O.D.	6	5	5	\$3.50	\$4.00	17	19	14.29%	
NOTICE OF NON-DELIVERY	0.0	0.0	0.0	\$2.80	\$3.00	0	0	7.14%	
ALTERATION OF C.O.D.	7.6	6.2	6.1	\$2.80	\$3.00	17	18	7.14%	
RESTRICTED DELIVERY	0.0	0.0	0.0	\$2.75	\$2.75	0	0	0.00%	
TOTAL	14	11	11			34	37		
GRAND TOTAL EXCLUDING NOTICE OF NON-DELIVERY	4,866	3,936	3,886			17,233	18,959		
GRAND TOTAL	4,866	3,936	3,886			17,233	18,959		

1/ Denotes the percentage change from the current fee to the proposed fee, or (Column 5 - Column 4)/Column 4.

**RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 5**

4. Refer to USPS LR-H-206, "Diskettes of Witness Needham's (USPS-T-39) Testimony and Workpapers," WP-15, "Stamped Envelopes Test Year Volumes and Revenues."
 - a. Please explain why the TYAR volume (25,605,102 envelopes) for Printed 6 $\frac{3}{4}$ Regular, Window, Precanceled Regular and Precanceled [sic] Window [sic] is different from the TYBR volume (26,033,975 envelopes).
 - b. Refer to column 4. Please explain why the number of Test Year box lots for Plain 6 $\frac{3}{4}$ banded (62,713 boxes) and Plain 10 banded (87,699 boxes) envelopes are calculated by dividing the number of total envelopes by 50, rather than 500.
 - c. Refer to column 1, which lists FY 1996 total envelope sales adjusted to account for the difference between GFY 1996 and PFY 1996 workdays. Please explain why Plain 10 inch Hologram FY 1996 total envelope sales (11,889,500 envelopes) is the only number in this column that has not been multiplied by the ratio of GFY 1996 workdays to PFY 1996 workdays.

RESPONSE:

- a. The test year after rates volume was incorrectly calculated by multiplying the test year before rates volume by the before rates volume factor (test year before rates volume divided by the base year volume). The calculation should have been the base year volume multiplied by the test year after rates volume factor (test year after rates volume divided by the base year volume). The resulting test year before rates volume and test year after rates volume are the same, as presented in the attached revised workpaper.

**RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
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4. Continued

- b. The total number of banded stamped envelopes for the 6 ¾ inch and 10 inch sizes should have been divided by 500 instead of 50 to calculate the number of box lots. The attached revised workpaper reflects the corrections.**
- c. When the plain hologram volume was extracted for purposes of a proposed separate fee, the adjustment from PFY to GFY was inadvertently omitted. The correct volume is 12,363,357, as presented in the attached revised workpaper.**

SPECIAL SERVICES
STAMPED ENVELOPES
TEST YEAR 1998

REVISED 11/20/97

USPS-T-39
WP-15

TOTAL ENVELOPES

FEE (\$)

REVENUES

	TEST YEAR		TEST YEAR		CURRENT		CURRENT		PROPOSED		PROPOSED		BEFORE RATES	AFTER RATES
	TEST YEAR	TEST YEAR	TEST YEAR	TEST YEAR	TEST YEAR	TEST YEAR	TEST YEAR	TEST YEAR	TEST YEAR	TEST YEAR	TEST YEAR	TEST YEAR	BEFORE RATES	AFTER RATES
	BEFORE	AFTER	BEFORE	AFTER	BEFORE	AFTER	BEFORE	AFTER	BEFORE	AFTER	BEFORE	AFTER	BEFORE RATES	AFTER RATES
	RATES	RATES	RATES	RATES	BOX LOTS	SINGLE	BOX LOTS	SINGLE	BOX LOTS	SINGLE	BOX LOTS	SINGLE	VOLUME	VOLUME
	1986												CURRENT FEE	PROPOSED FEE
PRINTED:	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)			
6 3/4: Regular, Window, Precancelled Regular, Precancelled Window	28,470,031	26,033,875	26,033,875	52,088		\$12.60/\$13.40		\$14.00	642,415	728,951				
10: Regular, Window, Precancelled Regular, Precancelled Window	240,219,000	236,261,736	236,261,736	472,523		\$15.00/\$16.40/\$17.40		\$15.00	7,984,240	7,087,852				
6 3/4: (BOX OF 50) Household Regular, Household Window	1,188,918	1,189,333	1,189,333	23,387		\$3.00/\$3.10		\$3.00	70,268	70,160				
10: Household Regular, Household Window	4,525,033	4,450,490	4,450,490	89,010		\$3.20/\$3.30		\$3.25	329,815	289,282				
10: (BOX OF 50) Hologram	2,905,875	2,858,005	2,858,005	5,718		\$16.40		\$19.00	95,313	108,604				
10: (BOX OF 50) Household Hologram	704,554	692,947	692,947	13,859		\$3.20		\$3.50	45,081	48,508				
TOTAL PRINTED:	278,013,411	271,468,485	271,468,485						9,167,142	8,333,356				
PLAIN:														
6 3/4: Regular, Window, Precancelled Regular, Precancelled Window	25,847,158	25,421,363	25,421,363	39,388	5,722,349	\$8.20/\$9.00	\$0.06	\$8.50	\$0.07	425,444	735,448			
10: Regular, Window, Precancelled Regular, Precancelled Window	145,834,267	143,431,856	143,431,856	222,477	32,193,389	\$12/\$13/\$15	\$0.06	\$11.50	\$0.07	4,801,327	4,812,022			
6 3/4: Banded	3,188,196	3,135,675	3,135,675	6,271		\$8.20		\$9.50		51,425	59,578			
10: Banded	4,458,379	4,384,833	4,384,833	8,770		\$13.00		\$12.00		114,008	105,238			
10: Hologram	12,363,357	12,159,688	12,159,688	18,845	2,737,146	\$12.00	\$0.06	\$15.50	\$0.08	390,370	511,070			
TOTAL PLAIN:	191,681,355	188,533,515	188,533,515							5,582,574	6,223,356			
GRAND TOTAL:	467,704,767	460,000,000	460,000,000							14,748,716	14,556,712			

**RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
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5. Refer to USPS LR-H-206, "Diskettes of Witness Needham's (USPS-T-39) Testimony and Workpapers, "WP 9, "Parcel Airlift Test Year Volumes and Revenues," column 5. Please explain why the Library Rate TYAR volume (28,728 units) is excluded from the total TYAR volume for Primary Services (1,009,913 units) used to forecast Parcel Airlift Mail TYAR volumes.

RESPONSE:

The test year after rates Standard Mail B volumes used in calculating the test year after rates parcel airlift volume were entered into WP-9 one line below where they should have been entered. Since the library rate volume is the last entry in this group of volumes, the addition of this volume was omitted in the equation for the total Standard Mail B volume. The revised total Standard Mail B volume is 1038.64053 which represents the 1009.91296 total without the library rate volume plus the 28.728 library rate volume. With respect to parcel airlift, the Standard Mail B volume revisions result in a new total test year after rates parcel airlift volume of 73,283 and a revised corresponding revenue of \$76,447, as shown in the attached revised workpaper WP 9.

1/ Denotes the percentage change from the current fee, or (Column 7 - Column 6)/Column 6.

**RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 5**

6. Refer to USPS LR-H-206, "Diskettes of Witness Needham's (USPS-T-39) Testimony and Workpapers, "WP 8, "On-Site Meter Settings Test Year Volumes and Revenues." Please show, step-by-step, the calculation of the number (0.52932) entered in the cell named "RATIO" which is located at AO38 on the spreadsheet "onsmeter.wk3."

RESPONSE:

No calculation of this number is available. The number 0.52932 was first used in Docket No. R90-1 and was an adjustment based on an anticipated overall volume decline given the introduction of first and additional meter fees, as opposed to one fee for meter company settings. Given the available data, the meter setting volumes were adjusted by the same factor in Dockets No. R94-1 and R97-1.

**RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 5**

7. Refer to USPS LR-H-206, "Diskettes of Witness Needham's (USPS-T-39) Testimony and Workpapers, "WP 13, "Special Handling." Please identify the source of the FY 1996 Primary Services volumes for Special Rate (190,072 pieces) and Library Rate (30,191 pieces).

RESPONSE:

The source of the FY 1996 volumes for special rate and library rate underlying the special handling workpaper, as filed, is an early version of the FY 1996 volumes. The special rate and library rate volumes in this workpaper were not updated to reflect the final numbers. I am now correcting the special rate volume from 190,072 to 189,793 pieces and the library rate volume from 30,191 to 30,133 pieces, to reflect the billing determinants (LR-H-145 at H-4, H-5). The resulting total test year before rates special handling volume is corrected from 74,598 to 74,625, and the total test year after rates special handling volume is corrected from 68,899 to 68,926. The total test year before rates revenue is corrected from \$441,631 to \$441,784 and the total test year after rates revenue is corrected from \$1,309,676 to \$1,310,158. A revised workpaper WP 13 is attached. A revised summary workpaper, WP 17 (pages 1, 2, and 4) reflecting the changes discussed in my responses to questions 3, 4, 5, and 7, is also attached.

1/ Denotes the percentage change from the current fee to the proposed fee, or (Column 5 - Column 4)/Column 4.

[illegible]

Attachme to PQ Quest	Service	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Money Orders	\$0.01 to \$700									
		\$0.01 to \$700									
		APD - \$0.01 to \$700									
		Internal									
		Inquiry Fee									
	Total Money Orders	236,570,000	0.62	147,368,090	299,235,000 4/	203.1%	1,264,890	299,350,000 4/	236,661,000	1,264,889	0.0%
	On-Site Meter Setting	Single Meter	20.97	2,432,520	3,202,000		27,603,448	3,202,000	116,000	27,603,448	0.0%
		Emergency	23.03	184,240	263,000		32,875,000	263,000	8,000	32,875,000	0.0%
		Additional Meter	3.32	56,440	68,000		4,000,000	55,000	17,000	3,235,294	23.6%
		Meter Checked in or Out of Service	7.72	339,660	378,000	129.8%	8,590,909	333,000	44,000	7,568,182	13.5%
		Total On-Site Meter Setting	16.29	3,012,680	3,911,000		21,140,541	3,853,000	185,000	20,827,027	1.5%
	Parcel Airtel Mail	0 - 2 lbs.	N/A	14,397	0.449991		14,860	14,860	37,149	0.400011	12.5%
		2 - 3 lbs.	N/A	4,843	0.849947		4,962	4,962	6,616	0.750000	13.3%
		3 - 4 lbs.	N/A	14,668	1.300009		15,067	15,067	13,101	1,150,065	13.0%
		Over 4 lbs.	N/A	42,538	1.749969		43,748	43,748	28,224	1,550,028	12.9%
		Total Parcel Airtel Mail	73,283	N/A	1,043,181	N/A	78,537	78,537	85,090	0.924163	12.9%
	Post Office Boxes (semi-annual)	Group A - Size 1	54,875	3,841,250	70,000,000		3,462,192	3,462,192	72,129	48,000,000	45.8%
		Group A - Size 2	3,368	353,640	105,000,000		333,000	333,000	4,500	74,000,000	41.9%
		Group A - Size 3	1,943	359,455	185,000,000		323,072	323,072	2,524	128,000,000	44.5%
		Group A - Size 4	199	64,675	325,000,000		58,564	58,564	242	242,000,000	34.3%
		Group A - Size 5	57	31,350	550,000,000		28,842	28,842	69	418,000,000	31.6%
	Group B - Size 1	102,625	6,157,500	60,000,000		5,466,516	5,466,516	124,239	44,000,000	36.4%	
	Group B - Size 2	23,296	2,086,820	90,000,000		1,969,110	1,969,110	29,835	66,000,000	36.4%	
	Group B - Size 3	8,860	1,329,000	150,000,000		1,203,328	1,203,328	10,744	112,000,000	33.9%	
	Group B - Size 4	1,288	373,520	290,000,000		338,554	338,554	1,553	218,000,000	33.0%	
	Group B - Size 5	1,383	801,605	435,000,000		563,952	563,952	1,516	372,000,000	16.9%	
	Group C - Size 1	4,945,941	222,567,345	45,000,000		211,645,080	211,645,080	5,291,127	40,000,000	12.5%	
	Group C - Size 2	2,076,309	134,960,085	65,000,000		129,914,432	129,914,432	2,239,904	58,000,000	12.1%	
	Group C - Size 3	702,145	80,746,675	115,000,000		77,244,732	77,244,732	1,58,544	104,000,000	10.6%	
	Group C - Size 4	147,591	28,760,245	195,000,000		27,269,568	27,269,568	158,544	172,000,000	13.4%	
	Group C - Size 5	30,962	10,069,150	325,000,000		9,557,280	9,557,280	33,185	288,000,000	12.8%	

SPECIAL SERVICES COST COVERAGES AND PERCENTAGE INCREASES

Service	Registered Mail (Continued)									
	After Rates Volume 1/ After Rates	Cost Per Piece 2/ (\$)	Total Cost 3/ (Col 3)	After Rates Revenue 1/ (Col 4/Col 3)	Cost Coverage (Col 4/Col 3)	After Rates Revenue Per Piece (Col 4/Col 1)	Before Rates Revenue 1/ (Col 4/Col 1)	Before Rates Volume 1/ (Col 4/Col 1)	Before Rates Revenue Per Piece (Col 7/Col 8)	After Rates Revenue Per Piece (Col 7/Col 8)
Not Covered By Postal Insurance \$0.00 to \$100 Total Registry	3,113,000	5.37	76,784,240	122,805,000	159.7%	7,299,711	17,113,000	3,528,000	4.850624	5.676031
	14,291,000	5.37	76,784,240	122,805,000	159.7%	7,299,711	17,113,000	3,528,000	4.850624	5.676031
Special Handling Under 10 pounds Over 10 pounds Total Special Handling	50,972	17,953	88,926	879,263	430,896	17,249,922	24,001,281	138,609	56,146	5.399866
	50,972	17,953	88,926	879,263	430,896	17,249,922	24,001,281	138,609	56,146	5.399866
Stamping Cards	583,005,000	0.01	4,585,400	11,660,000	254.3%	0.020000	0	594,894,000	0.000000	0.000000
	583,005,000	0.01	4,585,400	11,660,000	254.3%	0.020000	0	594,894,000	0.000000	0.000000
Stamped Envelopes	460,000,000	0.03	12,306,000	14,656,712	118.3%	0.031646	14,749,716	460,000,000	0.032066	0.032066
	460,000,000	0.03	12,306,000	14,656,712	118.3%	0.031646	14,749,716	460,000,000	0.032066	0.032066
ZIP Coding of Mailing Lists	788	59.35	46,768	55,132	117.9%	69,964,467	47,256	788	59,969,543	16.7%
	788	59.35	46,768	55,132	117.9%	69,964,467	47,256	788	59,969,543	16.7%

1/ From USPS-T-39 Worksheets 1-16.

2/ From LR-H-107, USPS-T-27, or the total cost in Column 3 divided by the total volume in Column 1.

3/ From the total cost reported in USPS-T-15 or the cost per piece in Column 2 multiplied by the volume in Column 1.

4/ Includes money order international commissions, float, and outstanding money orders taken into revenue.

DECLARATION

I, Susan W. Needham, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Susan W Needham

Dated: November 20, 1997

RESPONSE OF POSTAL SERVICE WITNESS PLUNKETT TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 5

8. Refer to USPS LR-H-207, "Diskette of Witness Plunkett's (USPS-T-40) Testimony and Workpapers," WP 2, "Insurance," columns 2 and 3. Please provide the source of TYBR (18,000) and TYAR (17,000) transactions for indemnity of \$2,000.01 - \$5,000.

8. Response:

In Docket No. MC96-3 (see Commission's Decision, Appendix D Schedule 3, p. 8), the Commission based its recommended decision on a projection of 17,274 transactions in this indemnity range. Having no actual base year volumes I used this number as a starting point and projected the TYBR and TYAR numbers therefrom using my own judgement. Because the projected transaction volume in this range is too small to have any significant impact on cost coverage I used rounded numbers for the sake of simplicity.

RESPONSE OF POSTAL SERVICE WITNESS PLUNKETT TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 5

9. Refer to USPS LR-H-207, "Diskette of Witness Plunkett's (USPS-T-40) Testimony and Workpapers," WP 3, "Restricted Delivery," and WP 4, "Return Receipts." Please identify the source of the Primary Service TYAR volume (289,956 pieces) for Certified Mail.

9. Response:

The TYAR Certified Mail volume used in my workpapers is the TYAR volume of 293.118 million pieces (Ex. USPS-6A, p.7) adjusted by -3.469 million and 0.307 million for Delivery Confirmation and Packaging Service respectively. For the reason explained in the response to question 11, the adjustment for Packaging Service should have been 0.004 million, which would result in TYAR Certified volume of 289.653 million pieces. Revised workpapers WP 3 and WP 4 are attached.

SPECIAL SERVICES

	TRANSACTIONS						FEE		REVENUES	
	BEFORE RATES		AFTER RATES		CURRENT	PROPOSED	BEFORE RATES	AFTER RATES	PROPOSED FEE	PCT CHG /
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)		
FY 1996	3,872,823	4,274,182	4,052,789	\$2.75	\$2.75	706,281	11,754,002	11,145,170	10,492,742	0.00%
REGISTRY	295,334	256,830	226,587	\$2.75	\$2.75	623,115				0.00%
C.O.D.	0	0	0	\$2.75	\$2.75	0				0.00%
INSURANCE	9,868	10,800	10,659	\$2.75	\$2.75	29,701			29,313	0.00%
CERTIFIED	3,567,621	4,006,553	3,816,543	\$2.75	\$2.75	11,018,019			10,492,742	0.00%
TOTAL	=====	=====	=====			=====	=====	=====		

1/ Denotes the percentage change from the current fee to the proposed fee, or (Column 5 - Column 4)/Column 4.

SPECIAL SERVICES
RETURN RECEIPTS

REVISED 11/20/97
USPS-T-40
WP-4

TRANSACTIONS (000)			FEES (\$)			REVENUES (\$000)		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
REQUESTED AT TIME OF MAILING	BEFORE	AFTER	CURRENT	PROPOSED	BEFORE RATES	AFTER RATES VOLUME	PROPOSED FEE	CHANGE 1/
TO WHOM, WHEN & WHERE (IF DIFFERENT) DELIVERED:	FY 1996	RATES	RATES		CURRENT FEE	CURRENT FEE		FEE

REQUESTED AFTER MAILING			REQUESTED AFTER MAILING			REQUESTED AFTER MAILING		
REGISTRY	3,129	2,721	2,401	1.10	1.45	2,994	2,641	3,481
CERTIFIED	224,532	252,156	240,135	1.10	1.45	277,372	264,148	348,196
INSURANCE	778	852	829	1.10	1.45	937	912	1,202
MERCHANDISE	3,017	3,565	3,253	1.20	1.70	4,278	3,904	5,531
TOTAL	231,457	259,294	246,618			285,580	271,606	358,410
TO WHOM, WHEN & WHERE (IF DIFFERENT) DELIVERED:			TO WHOM, WHEN & WHERE (IF DIFFERENT) DELIVERED:			TO WHOM, WHEN & WHERE (IF DIFFERENT) DELIVERED:		
REGISTRY	0	0	0	6.60	7.00	0	0	0
CERTIFIED	517	581	553	6.60	7.00	3,831	3,649	3,870
INSURANCE	0	0	0	6.60	7.00	0	0	0
TOTAL	517	581	553			3,831	3,649	3,870
GRAND TOTAL								
REGISTRY	3,129	2,721	2,401	1.10	1.45	2,994	2,641	3,481
CERTIFIED	225,049	252,737	240,688	1.10	1.45	281,203	267,797	352,065
INSURANCE	778	852	829	1.10	1.45	937	912	1,202
MERCHANDISE	3,017	3,565	3,253	1.20	1.70	4,278	3,904	5,531
TOTAL	231,974	259,875	247,171			289,411	275,254	362,280
DELIVERY CONFIRMATION ADJUSTMENT			DELIVERY CONFIRMATION ADJUSTMENT			DELIVERY CONFIRMATION ADJUSTMENT		
CERTIFIED	0	0	(2,914)	1.10	1.45	0	(3,205)	(4,225)
PACKAGING SERVICE ADJUSTMENTS 2/	0	0						
INSURANCE	0	0	11	1.10	1.45	0	11,596	15,285
MERCHANDISE	0	0	6	1.20	1.70	0	7,530	10,667
REVISED GRAND TOTAL	231,974	259,875	244,274			289,411	272,068	358,081

1/ Denotes the percentage change from the current fee to the proposed fee, or (Column 5 - Column 4)/Column 4.
2/ Includes new volume from packaging service based on estimates to be presented in a separate Commission filing.

**RESPONSE OF POSTAL SERVICE WITNESS PLUNKETT TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 5**

10. Refer to USPS LR-H-207, "Diskette of Witness Plunkett's (USPS-T-40) Testimony and Workpapers," WP-4, "Return Receipts," columns 2 and 3.
- a. Please explain why the TYBR and TYAR transactions for Registry with Return Receipt are forecast using Insurance volume, instead of Registry volume.
 - b. Also, please explain why the TYBR and TYAR transactions for Insurance with Return Receipt are forecast using COD volume, instead of Insurance volume.

10 Response:

The cell references for these forecasts are incorrect and should be corrected as follows.

In worksheet WP 4 "Return Receipts" cells AG17, AI17, and AK17 should be changed to refer to X48, Z48, and AB48 respectively, and cells AG21, AI21, and AK21 should be changed to refer to X49, Z49, and AB49 respectively. A revised workpaper WP 4 is attached to my response to question 9.

RESPONSE OF POSTAL SERVICE WITNESS PLUNKETT TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 5

11. Refer to USPS LR-H-207, "Diskette of Witness Plunkett's (USPS-T-40) Testimony and Workpapers." Please identify the source of the adjustments for Packaging Service in the following workpapers: WP 1, "Certificate of Mailing" (2,457 transactions); WP 2, "Insurance" (427,034 transactions); and WP 4, "Return Receipts" (8,598 insurance and 5,118 merchandise transactions).

11 Response:

These adjustments were inadvertently copied from an earlier discarded version of the worksheets used to develop Exhibit USPS-3D in Docket No. MC97-5, USPS-T-3. The adjustments should have been as follows: WP 1, "Certificate of Mailing" (3,012 transactions); WP 2, "Insurance" (523,569 transactions); and WP 4, "Return Receipts" (10,542 insurance and 6,275 merchandise transactions). As noted in my response to question 9, this resulted in an incorrect adjustment to TYAR certified mail volumes which were used as inputs to WP 3 and WP 4. Revised workpapers WP 1 and WP 2 are attached, and revised workpaper WP 4 is attached to my response to question 9. As a result of these changes, workpapers WP 13 and WP 15, which summarize special services and adjust insurance costs respectively, have been revised and are attached.

SPECIAL SERVICES
CERTIFICATE OF MAILING

REVISED 11/20/97
USPS-T-40 WP-1
2 of 2

MAIL CLASS TYPE									
BASIC 2/ FIRM BOOK MAILING BULK: First 1,000 pcs 3/ Each add'l 1,000 pcs									
TRANSACTIONS									
TEST YEAR	TEST YEAR	TEST YEAR	FEES (\$)	BEFORE RATES	AFTER RATES	BEFORE RATES	AFTER RATES	PERCENT	PERCENT
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(9)
FY 1996	RATES	RATES	CURRENT	PROPOSED	CURRENT FEE	PROPOSED FEE	CHANGE 1/ PERCENT	CHANGE 4/ PERCENT	CHANGE 4/ PERCENT
3,472,609	3,672,992	3,649,678	\$0.55	\$0.60	2,020,146	2,189,807	9.09%	8.40%	8.40%
6,978,940	7,220,796	7,163,927	\$0.20	\$0.25	1,444,159	1,795,982	25.00%	24.36%	24.36%
80,367	83,142	82,717	\$2.75	\$3.00	228,641	248,152	9.09%	8.53%	8.53%
884,033	914,563	909,890	\$0.35	\$0.40	320,097	363,956	14.29%	13.70%	13.70%
11,415,949	11,891,493	11,826,212			4,013,043	4,597,896		14.57%	14.57%
GRAND TOTAL									
Adjustment For Packaging Service									
		3,012	\$0.55	\$0.60	0	1,807			
Adjusted Grand Total	11,415,949	11,891,493	11,829,224		4,013,043	4,599,704			14.62%

1/ Denotes the percentage change from the current fee to the proposed fee, or (Column 5 - Column 4)/Column 4.
2/ Includes duplicates.
3/ Assumes no volume shifts, (Column 5 - Column 4)/(Column 4).
4/ Denotes the percentage change from the revenue of the before rates volume at the current fee to the revenue of the after rates volume at the proposed fee, or (Column 7 - Column 6)/Column 6.

SPECIAL SERVICES

REVISED 11/20/97
USPS-T-40
WP-2
Page 1 of 1

INSURANCE

	TRANSACTIONS (000)			REVENUES (000)				
	FY 1996	TEST YEAR BEFORE RATES	TEST YEAR AFTER RATES	FEES (\$)		BEFORE RATES VOLUME CURRENT FEE	AFTER RATES VOLUME PROPOSED FEE	PERCENT CHANGE 4/
				CURRENT	PROPOSED			
INDEMNITY LIMIT	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
50	12,605	13,315	13,182	\$0.75	\$0.95	\$9,986	\$12,522	26.67%
100	8,408	8,882	8,793	1.60	1.90	14,211	16,706	18.75%
200	3,846	4,063	4,022	2.50	2.90	10,157	11,665	16.00%
300	1,405	1,484	1,469	3.40	3.90	5,046	5,730	14.71%
400	516	545	540	4.30	4.90	2,345	2,646	13.95%
500	647	683	677	5.20	5.90	3,554	3,992	13.46%
600	520	550	544	6.10	6.90	3,354	3,756	13.11%
\$600.01 - \$2,000	1,011	1,069	1,058	12.85	14.40	13,741	15,230	12.06%
\$2,000.01 - \$5,000	17	18	17	32.65	36.40	588	619	11.49%
\$600.01 - \$5,000 5/	1,028	1,087	1,075	13.18	14.75	14,329	15,849	11.92%
TOTAL 6/	28,976	30,609	30,301	2.06	2.40	62,982	72,866	205.76%
ADDITIONAL SERVICES 2/								
RETURN RECEIPTS	778,315	822,171	813,948					
RESTRICTED DELIVERY	9,868	10,424	10,320					
TOTAL	788,183	832,595	824,268					
INTERNATIONAL 3/								
CANADA	181	191	189	\$2.29	\$2.29	436	432	0.00%
OTHER	605	639	633	2.19	2.19	1,399	1,385	0.00%
RETURN RECEIPTS	0	0	0					
TOTAL	785	830	821			1,835	1,816	
GRAND TOTAL	29,761	31,439	31,123	2.06	2.40	\$64,817	\$74,683	

1/ Source: Appendix D, Schedule 3, Page 8 of 21, Docket No. MC96-3 Recommended Decision.

2/ Transactions from additional services not included in grand total.

3/ Average fees based upon FY 1996 data.

4/ Denotes the percentage change from the current fee to the proposed fee, or (Column 5 - Column 4)/Column 4.

5/ Volume includes insured Express Mail pieces: FY 1996 = 97.390, TYBR = 103.882, TYAR = 101.371

6/ Includes new volume from packaging service based on estimates to be presented in a separate Commission filing.

TEST YEAR AFTER RATES
SPECIAL SERVICES COST COVERAGES AND PERCENTAGE INCREASES

REVISED 11/20/97
USPS T-40
WP-13

Service	After Rates Volume 1/ (1)	Cost Per Piece 2/ (\$) (2)	Total Cost 3/ (3)	After Rates Revenue 1/ (4)	Cost Coverage (Col 4/Col 3) (5)	After Rates Revenue Per Piece (Col 4/Col 1) (6)	Before Rates Revenue 1/ (7)	Before Rates Volume 1/ (8)	Before Rates Revenue Per Piece (Col 7/Col 8) (9)	After Rates Percentage Increase (Col 6/Col 9) (10)
CERTIFICATE OF MAILING	11,829,224	0.29	3,480,529	4,599,704	132.2%	0.39	4,013,043	11,891,493	0.337	15.2%
INSURANCE	31,122,768	1.56	48,549,042	74,452,911	153.4%	2.33	64,817	32,526	1.993	16.8%
RESTRICTED DELIVERY	4,056,785	1.71	7,006,473	11,156,158	159.2%	2.75	11,754,002	4,274,182	2.750	0.0%
RETURN RECEIPTS	244,274,066	1.00	243,558,272	358,080,557	147.0%	1.47	289,941	260,356	1.114	31.6%
DELIVERY CONFIRMATION	66,608,086	0.33	22,139,260	23,563,212	106.4%	0.35	NA	NA	NA	NA
MAILING FEES										
First-Class Presorted Mailing Fee	60,689	87.73	5,377,516	6,068,931	112.9%	100.00	5,183,405	60,981	85.000	17.6%
Periodicals Application Fees	9,764	61.12	596,821	767,249	128.6%	78.58	775,024	9,764	79.372	-1.0%
Standard (A) Bulk Mailing Fee	790,882	87.73	70,077,896	79,088,175	112.9%	100.00	67,790,460	797,535	85.000	17.6%
Standard (B) Special Mail Presort I	908	87.73	80,413	90,752	112.9%	100.00	77,159	908	85.000	17.6%
Authorization to Use Permit Imprint	91,966	87.73	8,148,893	9,196,639	112.9%	100.00	7,817,143	91,966	85.000	17.6%
Merchandise Return Permit Fee	1,307	87.73	115,799	130,688	112.9%	100.00	111,085	1,307	85.000	17.6%
Destination Bulk Mail Center Fee	170	87.73	15,086	17,025.88	112.9%	100.00	14,472.00	170	85.000	17.6%

1/ From the special services workpapers USPS T-40 WP 1-12

2/ From Special Services Cost Studies LR-H-107, or (3)/(1) for insurance and delivery confirmation

3/ The cost per piece in Column 2 multiplied by the volume in Column 1 plus 1% Contingency, except insurance (WP-15) and delivery confirmation (WP-5)

Question 11

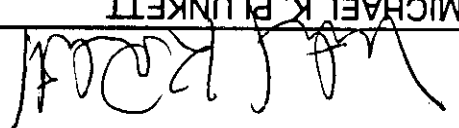
Insurance Cost Adjustment

Indemnity Value		Indemnity Limit		After Rates		Cost Per Piece		Total Costs	
(A)		(B)		(C)		(D)		(E)	
Indemnity Value		Indemnity Limit		Volume 1/ After Rates		Indemnity 2/ Other Costs 3/ Total		Indemnity (C/D)	Other Costs (C/E)
									Total Costs (C/F)
\$0.01 to \$50	50	50	13,182	0.11	0.56	0.67	1,475,070	7,381,674	8,856,745
50.01 to 100	100	100	8,793	0.24	1.16	1.40	2,127,421	10,199,620	12,327,041
100.01 to 200	200	200	4,022	0.61	1.16	1.77	2,455,371	4,665,843	7,121,214
200.01 to 300	300	300	1,469	1.17	1.16	2.33	1,722,946	1,704,357	3,427,304
300.01 to 400	400	400	540	2.01	1.16	3.17	1,087,704	626,376	1,714,082
400.01 to 500	500	500	677	1.89	1.16	3.05	1,281,061	784,814	2,065,874
500.01 to 600	600	600	644	3.62	1.16	4.78	1,968,501	631,420	2,599,921
600.01 to 700	700	700	76	3.50	1.16	4.66	264,418	87,636	352,053
700.01 to 800	800	800	76	4.00	1.16	5.16	302,192	87,636	389,827
800.01 to 900	900	900	76	4.50	1.16	5.66	339,966	87,636	427,601
900.01 to 1,000	1000	1000	76	5.00	1.16	6.16	377,739	87,636	465,375
1,000.01 to 1,100	1100	1100	76	5.50	1.16	6.66	416,513	87,636	503,149
1,100.01 to 1,200	1200	1200	76	6.00	1.16	7.16	453,287	87,636	540,923
1,200.01 to 1,300	1300	1300	76	6.50	1.16	7.66	491,061	87,636	578,697
1,300.01 to 1,400	1400	1400	76	7.00	1.16	8.16	528,835	87,636	616,471
1,400.01 to 1,500	1500	1500	76	7.50	1.16	8.66	566,609	87,636	654,245
1,500.01 to 1,600	1600	1600	76	8.00	1.16	9.16	604,383	87,636	692,019
1,600.01 to 1,700	1700	1700	76	8.50	1.16	9.66	642,157	87,636	729,793
1,700.01 to 1,800	1800	1800	76	9.00	1.16	10.16	679,931	87,636	767,567
1,800.01 to 1,900	1900	1900	76	9.50	1.16	10.66	717,705	87,636	805,341
1,900.01 to 2,000	2000	2000	76	10.00	1.16	11.16	755,479	87,636	843,115
2,000.01 to 2,100	2100	2100	1	10.50	1.16	11.66	5,950	0.657	6,607
2,100.01 to 2,200	2200	2200	1	11.00	1.16	12.16	6,233	0.657	6,891
2,200.01 to 2,300	2300	2300	1	11.50	1.16	12.66	6,517	0.657	7,174
2,300.01 to 2,400	2400	2400	1	12.00	1.16	13.16	6,800	0.657	7,457
2,400.01 to 2,500	2500	2500	1	12.50	1.16	13.66	7,083	0.657	7,741
2,500.01 to 2,600	2600	2600	1	13.00	1.16	14.16	7,367	0.657	8,024
2,600.01 to 2,700	2700	2700	1	13.50	1.16	14.66	7,650	0.657	8,307
2,700.01 to 2,800	2800	2800	1	14.00	1.16	15.16	7,933	0.657	8,591
2,800.01 to 2,900	2900	2900	1	14.50	1.16	15.66	8,217	0.657	8,874
2,900.01 to 3,000	3000	3000	1	15.00	1.16	16.16	8,500	0.657	9,157
3,000.01 to 3,100	3100	3100	1	15.50	1.16	16.66	8,783	0.657	9,441
3,100.01 to 3,200	3200	3200	1	16.00	1.16	17.16	9,067	0.657	9,724
3,200.01 to 3,300	3300	3300	1	16.50	1.16	17.66	9,350	0.657	10,007
3,300.01 to 3,400	3400	3400	1	17.00	1.16	18.16	9,633	0.657	10,291
3,400.01 to 3,500	3500	3500	1	17.50	1.16	18.66	9,917	0.657	10,574
3,500.01 to 3,600	3600	3600	1	18.00	1.16	19.16	10,200	0.657	10,857
3,600.01 to 3,700	3700	3700	1	18.50	1.16	19.66	10,483	0.657	11,141
3,700.01 to 3,800	3800	3800	1	19.00	1.16	20.16	10,767	0.657	11,424
3,800.01 to 3,900	3900	3900	1	19.50	1.16	20.66	11,050	0.657	11,707
3,900.01 to 4,000	4000	4000	1	20.00	1.16	21.16	11,333	0.657	11,991
4,000.01 to 4,100	4100	4100	1	20.50	1.16	21.66	11,617	0.657	12,274
4,100.01 to 4,200	4200	4200	1	21.00	1.16	22.16	11,900	0.657	12,557
4,200.01 to 4,300	4300	4300	1	21.50	1.16	22.66	12,183	0.657	12,841
4,300.01 to 4,400	4400	4400	1	22.00	1.16	23.16	12,467	0.657	13,124
4,400.01 to 4,500	4500	4500	1	22.50	1.16	23.66	12,750	0.657	13,407
4,500.01 to 4,600	4600	4600	1	23.00	1.16	24.16	13,033	0.657	13,691
4,600.01 to 4,700	4700	4700	1	23.50	1.16	24.66	13,317	0.657	13,974
4,700.01 to 4,800	4800	4800	1	24.00	1.16	25.16	13,600	0.657	14,257
4,800.01 to 4,900	4900	4900	1	24.50	1.16	25.66	13,883	0.657	14,541
4,900.01 to 5,000	5000	5000	1	25.00	1.16	26.16	14,167	0.657	14,824
Adjustment (Totals - Roll Forward Costs)									
Total Domestic				30,301		19,559	27,241	46,800	1,269
Total Insurance				821		530	736	1,269	48,068
Totals				31,123		20,089	27,979	48,068	49,287
Contingency						201	280	481	481
Totals Including Contingency						20,290	28,259	48,549	49,768
Roll Forward Costs 4/						14,267	26,938	41,205	41,205
Adjustment (Totals - Roll Forward Costs)						5,680	772	6,451	6,451

1/ Source: Docket No. R97-1, USPS-T-40 WP 2
2/ Indemnity per piece for items valued at \$600 or less from Docket No. R97-1, USPS-T-40, p.6. For other pieces = 0.005*(Col B)
3/ LR H-107
4/ USPS-T-15, Exhibit USPS-15H, p. 8, Exhibit USPS-15I, p.2

DECLARATION

I, Michael K. Plunkett, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.



MICHAEL K. PLUNKETT

Dated: November 20, 1997

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ADRA
TO POIR NO. 5, QUESTION 12**

12. Final Cost and Revenue Adjustments

Final cost and revenue adjustments for BPM are developed in USPS-T-38, Workpaper BPM31. The unit cost with contingency for unbarcoded volume changes from the TYAR Forecast (\$0.598755) to TYAR Adjusted (\$0.609916). Both include an adjustment for current volume presently barcoded. Two additional adjustments are made in the development of the TYAR adjusted unit cost (Cell L49 on worksheet "Final adjustments:").

- additional barcoded volume; and

- new volume over 10 pounds.

Please justify these two additional adjustments. If the adjustment for new volume over 10 pounds is justified, should an adjustment be made to the unit cost of new volume over 10 pounds (\$1.122256)? If not, why not? If so, please provide the correct adjustment.

If these two adjustments are justified for BPM, please explain why similar adjustments are not included in developing the unit cost of unbarcoded volume for Library Rate (USPS-T-38, Lib 8, page 2).

If the adjustment for the additional barcode volume is justified, please explain why a similar adjustment is not included in the development of the unit cost of unbarcoded volume for Special Standard (USPS-T-38, Workpaper SR7, page 2).

Please provide any revised documentation.

RESPONSE:

The two additional adjustments that you refer to in your question and are made in Cell L49 on worksheet "Final Adjustments:" are not justified. The unit cost with contingency for unbarcoded volume does not change from TYAR Forecast (i.e., Cell K49) to TYAR Adjusted (i.e., Cell L49). The correction has been made in the attached revised workpapers. However, your question led me to revise the estimated unit cost of new volume over 10 pounds (\$1.122256) to include an adjustment for newly barcoded volume. I have also made the same adjustment

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ADRA
TO POIR NO. 5, QUESTION 12**

RESPONSE (continued)

on the revenue side (i.e., the \$1.7204 revenue per piece for new volume over 10 lbs, in Cell L28). All corrections are incorporated in the revised workpapers: WP BPM31, WP BPM32. These corrections impact the cost coverage, thus, I have also attached the revised workpaper WP-BPM1. The calculations for Special Standard and Library are correct. Thus, no similar adjustments and/or corrections are needed.

**Standard (B) Bound Printed Matter
Financial Summary**

**Revised
17-Nov-97
USPS-T-38
WP BPM1**

	TYBR [1]	Forecast TYAR [2]	Final TYAR [3]
Volume	567,896,300	561,718,000	574,741,500
Revenue Excluding Fees	\$493,015,052	\$509,001,955	\$524,004,849
Revenue Per Piece - Excluding Fees	\$0.8681	\$0.9062	\$0.9117
Fees	\$427,000	\$0	\$435,000
Revenue Including Fees	\$493,442,052	\$509,001,955	\$524,439,849
Revenue Per Piece - Including Fees	\$0.8689	\$0.9062	\$0.9125
Cost including contingency	\$336,113,860	\$332,590,980	\$339,729,338
Cost Coverage - including fees	146.81%	153.04%	154.37%
Cost coverage - excluding fees	146.68%	153.04%	154.24%

- [1] Volume – BPM8 ; Revenues – BPM12; Cost – USPS-T-15, WP-E, Table E
 [2] Volume – BPM26 ; Revenues – BPM30; Cost – USPS-T-15, WP-G, Table E
 [3] BPM31

TYAR Cost and Revenue per Piece [3]				TYAR Costs [1]	
<u>Weight</u>	<u>Cost Per Piece</u>	<u>Revenue Per Piece</u>	<u>Cost Coverage</u>		
1.5	\$0.5276	\$0.8141	1.54	Total before Final Adjustments	\$332,590,980
2	\$0.5567	\$0.8588	1.54	Cost Segment 14	64,237,333
3	\$0.6148	\$0.9482	1.54	Nontransportation Costs	\$268,353,647
4	\$0.6730	\$1.0375	1.54	Nontransportation Weight-Related Costs	13,711,746
5	\$0.7312	\$1.1268	1.54	Unadjusted Non-Weight Related Costs	\$254,641,901
6	\$0.7893	\$1.2162	1.54	Cost savings due to newly barcoded volume [4]	<u>-\$7,307,906</u>
7	\$0.8475	\$1.3055	1.54	Adjusted Non-Weight Related Costs	\$247,333,995
8	\$0.9057	\$1.3949	1.54	Weight-Related Costs	77,949,079
9	\$0.9638	\$1.4842	1.54		
10	\$1.0220	\$1.5735	1.54		
11	\$1.0802	\$1.6629	1.54		
11.5	\$1.1092	\$1.7076	1.54	Adjusted Piece-Related Revenue [5]	\$382,041,562
12	\$1.1383	\$1.7522	1.54	Pound-Related Revenue	\$119,724,842
13	\$1.1965	\$1.8416	1.54		
14	\$1.2547	\$1.9309	1.54	TYAR Pieces	561,718,000
15	\$1.3128	\$2.0203	1.54	TYAR Pounds	1,340,074,352

Calculation of TYAR Nontransportation Weight-Related Costs [2]						
	<u>Factor</u>	<u>\$/Lb.</u>	<u>Pounds</u>	<u>Vol. Adj.</u>	<u>Nontransp. Per Lb. Costs</u>	
Single piece						
Local	0.75	\$0.02	1,929,864	1.0000		\$28,948
Non-Local	1	0.02	80,568,396	1.0000		1,611,368
Bulk						
Local	0.375	0.02	201,732,399	1.0000		1,512,993
Non-Local	0.5	0.02	<u>1,055,843,692</u>	1.0000		<u>10,558,437</u>
Total			1,340,074,352			\$13,711,746

Notes:

[1]:

Total costs from USPS-T-15, WP-G, Table E.

Transportation costs - same % as in TYBR

Non-transportation weight-related costs from [2]

Revenues - BPM30

TYAR Pieces - BPM26

TYAR Pounds - BPM27

[2]:

Assumes 2 cents per lb for weight-related nontransportation cost

[3]:

Cost per piece: (non-weight related cost / TYAR pieces) + weight * (weight related cost / TYAR pounds)

Revenue Per piece: (piece related revenue / TYAR pieces) + weight * (pound related revenues/TYAR pounds)

[4]:

Cost savings = Newly barcoded volume * barcode cost savings per piece

Total volume	561,718,000
--------------	-------------

Percent of New barcode	32.20%
------------------------	--------

Newly Barcoded Volume	180,888,757
-----------------------	-------------

Barcode cost savings per piece with contingency	0.0404
-------------------------------------------------	--------

Cost savings due to newly barcoded volume	\$7,307,906
-------------------------------------------	-------------

[5]:

Unadjusted Piece-Related Revenue	\$389,277,113
----------------------------------	---------------

Newly Barcoded Volume	180,888,757
-----------------------	-------------

Barcode Discount	-0.04
------------------	-------

Barcode Adjustment	<u>-\$7,235,550</u>
--------------------	---------------------

Adjusted Piece-Related Revenue	\$382,041,562
--------------------------------	---------------

CALCULATION OF BOUND PRINTED MATTER FINAL ADJUSTMENTS

Volume

	<u>Volume</u>		
	<u>TYAR</u>		
	<u>TYBR</u>	<u>Forecast</u>	<u>Adjusted</u>
Unbarcoded Volume	474,286,178	469,126,289	288,237,532
Currently Barcoded Volume	93,610,122	92,591,711	92,591,711
Additional Volume Barcoded from Market Research	na	na	180,888,757
New Volume from Delivery Confirmation	na	na	0
New Volume over 10 Pounds	na	na	13,023,500
Total	567,896,300	561,718,000	574,741,500

Revenue Impact

	<u>Revenue per Piece</u>		
	<u>TYAR</u>		
	<u>TYBR</u>	<u>Forecast</u>	<u>Adjusted</u>
Unbarcoded Volume	\$0.868143	\$0.912746	\$0.912746
Currently Barcoded Volume	0.868143	0.872746	0.872746
Additional Volume Barcoded from Market Research	na	na	0.872746
New Volume from Delivery Confirmation	na	na	na
New Volume Over 10 Pounds	na	na	1.707563
Total	0.868143	0.906152	0.911723

	<u>Revenue</u>		
	<u>TYAR</u>		
	<u>TYBR</u>	<u>Forecast</u>	<u>Adjusted</u>
Unbarcoded Volume	\$411,748,104	\$428,192,948	\$263,087,534
Currently Barcoded Volume	81,266,948	80,809,007	80,809,007
Additional Volume Barcoded from Market Research	na	na	157,869,863
New Volume from Delivery Confirmation	na	na	0
New Volume Over 10 Pounds	na	na	22,238,445
Total	493,015,052	509,001,955	524,004,849


Cost Impact

	<u>Cost per Piece with contingency</u>		
	<u>TYAR</u>		
	<u>TYBR</u>	<u>Forecast</u>	<u>Adjusted</u>
Unbarcoded Volume	\$0.598517	\$0.598755	\$0.598755
Currently Barcoded Volume	0.558117	0.558355	\$0.558355
Additional Volume Barcoded from Market Research	na	na	\$0.558355
New Volume from Delivery Confirmation	na	na	na
New Volume over 10 Pounds	na	na	\$1.109246
Total	0.591858	0.592096	0.591099

	<u>Cost with contingency</u>		
	<u>TYAR</u>		
	<u>TYBR</u>	<u>Forecast</u>	<u>Adjusted</u>
Unbarcoded Volume	\$283,868,440	\$280,891,898	\$172,583,778
Currently Barcoded Volume	52,245,420	51,699,082	\$51,699,082
Additional Volume Barcoded from Market Research	na	na	\$101,000,214
New Volume from Delivery Confirmation	na	na	na
New Volume over 10 Pounds	na	na	\$14,446,264
Total	336,113,860	332,590,980	339,729,338

DECLARATION

I, Mohammad A. Adra, declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.



Mohammad A. Adra

Nov. 17, 1997
Date

Response of Witness Mayes to Presiding Officer's Information Request No. 5

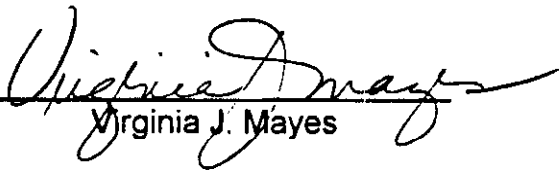
- 13. Please explain why the "Additional Nontransportation Costs of New Volume over 108 Inches" (Line 5, USPS-T-37, Workpaper 1.1, page 2) should have a markup applied while the other adjustments to costs, such as "Prebarcode Cost Savings" (Line 17) do not have a markup applied.**

Response:

"Additional Nontransportation Costs of New Volume over 108 Inches" appear not at line (5), but at line (4) of workpaper USPS-T-37, WP I.I., page 2. Neither the "Additional Nontransportation Costs of New Volume over 108 Inches" nor the "Prebarcode Cost Savings" adjustments to costs, as developed at lines (4) and (17) of workpaper USPS-T-37, WP I.I., page 2 incorporate a markup. In the event that the question meant to refer to line (5), I would note that there is likewise no markup incorporated into the formula at line (5). The formula associated with line (4) refers to line (27), the per-piece rate element, which does include a markup. However, when line (27) is incorporated into the formula for line (4), it is divided by line (8), which is the markup factor. Thus, the markup is removed from the per-piece rate element, and is not included in the calculation of the "Additional Nontransportation Costs of New Volume over 108 Inches."

DECLARATION

I, Virginia J. Mayes, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


Virginia J. Mayes

Dated: Nov 18, 1997

**Response of United States Postal Service Witness Patelunas
to Presiding Officer's Information Request
Number 5.**

14. USPS Library References H-2 and H-3 are the FY 1996 Cost and Revenue Analysis report and the Cost Segments and Components report. These reports are the Fiscal Year 1996 equivalent of witness Alexandrovich's Exhibits 5A through 5C. Please provide the following workpapers and backup material that were used to develop the library references, above.

a. Cost Segment workpapers, equivalent to witness Alexandrovich's "B" workpapers. Also, please provide the electronic version of the workpapers as was provided for the Base Year workpapers in USPS LR-H-201.

b. The CRA Manual Input reports, the A report, the B report, and the C report. These are equivalent to witness Alexandrovich's workpapers A-1 through A-4. Please provide an electronic version of the Manual Input report similar to that found in USPS LR-H-6.

14. Response:

a. The hardcopy version of the "B" workpapers is provided in Part I of USPS LR-H-308. The electronic version of the "B" workpapers is provided on the disk found at the end of Part II of USPS LR-H-308.

b. The hardcopy version of the following reports is provided in Part II of USPS LR-H-308: the Manual Input report, the A report, the B report, the F report and the C report. The electronic version of the Manual Input report is provided on the disk found at the end of Part II of USPS LR-H-308.

DECLARATION

I, Richard Patelunas, declare under penalty of perjury that the foregoing answers to interrogatories are true and correct to the best of my knowledge, information, and belief.

A handwritten signature in black ink, appearing to read "Richard Patelunas", written over a horizontal line.

Dated: 11/20/97

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS DAVID E. TREWORY TO PRESIDING OFFICER'S
INFORMATION REQUEST NO. 5, QUESTION 17

Page 1 of 1

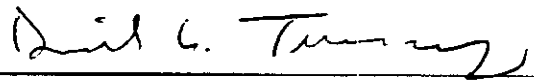
POIR No. 5, Question 17. USPS-T-22, page 18, states that "worksheet C-1, include costs such as scanning equipment depreciation, information systems hardware and software development, and training." Please identify which of the costs in Table [sic] C-1 are depreciation costs.

RESPONSE:

All costs listed under "Capital costs" in worksheet C-1 are depreciation costs.

DECLARATION

I, David E. Treworgy, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.



DAVID E. TREWORGY

Dated: 11/20/97

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 5**

POIR NO.5, QUESTION 18. Response to ABA&EEI&NAPM/USPS-T32-6 states that bulk metered mail "has the features commonly associated with First-Class metered mail." Please describe these features.

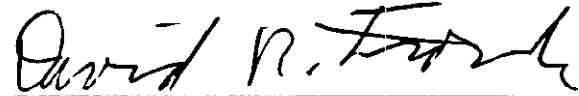
RESPONSE: The phrase quoted above was included in my response to ABA&EEI&NAPM/USPS-T32-6 because bulk metered mail costs are developed by starting with the costs for First-Class single-piece metered mail as a whole, and then subtracting certain costs avoided when processing bulk metered mail (please see USPS LR-H-106, page II-10). The costs that remain are assumed to apply to all single-piece metered mail, both bulk and nonbulk.

The way the response was phrased, it may suggest that I had in mind a specific set of mail characteristics or features, for example, whether the address is handwritten. While this was not the case, I will try to respond to the question as posed.

Features of First-Class metered mail include an address that is typically not handwritten. According to 1996 ODIS data, 11.1 percent of metered single-piece letters have handwritten addresses while 37.5 percent of nonmetered single-piece letters have handwritten addresses. In addition, single-piece metered mail carries a meter imprint or strip and typically originates from a business. Also, single-piece metered letters typically do not have a FIM; 2.5 percent have a FIM, according to 1996 ODIS data. In general, single-piece metered mail is fairly homogeneous.

DECLARATION

I, David R. Fronk, hereby declare, under penalty of perjury, that the foregoing Docket No. R97-1 interrogatory responses are true to the best of my knowledge, information, and belief.



David R. Fronk

11-20-97
Date

**RESPONSE OF U.S. POSTAL SERVICE WITNESS SMITH
TO THE PRESIDING OFFICER'S INFORMATION REQUEST NO. 5**

19. Please refer to LR H-106, page II-10.

a. Does the calculation of the bulk metered mail benchmark assume that bulk metered mail and non-metered mail follow the same processing path? Please explain.

b. What is the purpose of, and rationale for, the 'rescaler'?

c. Please explain what column 2, 'Tallies for all Indicia,' represents.

d. Are these tallies representative of First-Class as a whole? Please explain.

e. What characteristics of bulk metered mail make it more expensive to process in mods pool ocr (.678 cents) than non-metered mail (.484 cents)?

f. What characteristics of bulk metered mail make it more expensive to process in mods pool bcs (1.766 cents) than non-metered mail (1.708 cents)?

g. In general, is it logical that bulk metered mail, which is presumably 'clean' mail, is only 1.16 cents cheaper to process than non-metered mail which presumably includes handwritten addressed mail? Please discuss.

Response:

a. No. The bulk metered benchmark is based on the cost for metered First-Class single-piece letters. The processing costs and presumably the processing path differs between metered and non-metered letters. The attached table compares the unit costs for First-Class single-piece metered and non-metered letters, see columns 2 to 5. The calculation of the bulk metered benchmark does assume that the processing path is the same for bulk metered letters and metered letters, with the exception of the costs for mail preparation and business reply as shown in LR-H-106, page II-10, columns 5 and 6.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS SMITH
TO THE PRESIDING OFFICER'S INFORMATION REQUEST NO. 5**

b. The "rescaler," shown in the cell H62 of the spreadsheet CSTSHAPE.XLS, on the sheet METER is the ratio of the total letter volumes (TV) to metered letters volumes (MV) for test year First-Class single-piece. This is the ratio shown as "TV/MV" in the "Sources" shown on page II-10 in column 5. The "rescaler" or "TV/MV" is 49,065,223/19,065,223. (Note: the cell H62 is "hidden", along with other rows and columns in an apparently unsuccessful attempt, to better present the calculation. The description in the "Source" row for column 5 was intended to explain this calculation.)

The purpose or rationale for the "rescaler" is to put the costs in terms of cost per metered letter as opposed to cost per letter (in total or for all indicia). Consider the following steps which are accomplished by the "rescaler" and the other calculations in column 5. Column 1 of page II-10 is the unit cost by cost pool for total First-Class single-piece letters costs. Multiplying the contents of column 1 by 49,065,223 (which is the total volume of First-Class single-piece letters) provides total costs instead of unit costs. If we multiply this result times column 4 (which is the percentage of total letter costs that is associated with metered letters) we obtain the total costs for metered letters. If we divide this by the metered letter volume of 19,063,454, we then obtain the unit costs for metered letters.

c-d. Page II-10 shows column 2 to be "Tallies for Meter Mail," while column 3 is "Tallies for All Indicia." Column 3 is the direct tally cost for First-Class single-piece

**RESPONSE OF U.S. POSTAL SERVICE WITNESS SMITH
TO THE PRESIDING OFFICER'S INFORMATION REQUEST NO. 5**

letters of all indicia. Column 2 is the direct tally cost for metered First-Class single-piece letters. The tallies in columns 2 and 3 are only representative of the metered letters and all single-piece letters respectively. These columns are used to calculate the percentage of costs associated with metered letters as done in column 4.

e. My suspicion is that metered mail (and bulk metered mail) would likely be run on MLOCs more often than would non-metered letters, due to the higher percentage of handwritten addressed pieces in non-metered letters, at least at non-RBCS sites. Non-metered letters, as a consequence, receive more manual processing as shown in the attached table in columns 2 to 5, row labeled "manl." This disparity will likely decline as RBCS deployment is completed, though the disparity in remote encoding center costs "LD15" would then likely grow. Another explanation is that non-metered letters contains a significant volume of FIM letters, which are generally prebarcoded. See the response to OCA/USPS-103. Such mail would not receive MLOC processing.

f. The higher cost for metered letters for barcode sorter processing is consistent with less automated processing for non-metered letters, as indicated in the response to part e.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS SMITH
TO THE PRESIDING OFFICER'S INFORMATION REQUEST NO. 5**

g. The unit cost difference between all First-Class single-piece letters (11.74 cents) and bulk metered letters (10.58 cents) of 1.16 cents and the unit cost difference between First-Class single-piece non-metered letters (12.23 cents) and bulk metered letters (10.58 cents) of 1.65 cents have likely been narrowed by the FIM letters that are a significant part of non-metered letters. The low cost of FIM letters likely offsets the cost of handwritten addressed letters.

First-Class Single Piece Letter Unit Costs --in Total, Metered, Non-Metered and Bulk Entered Metered

COST POOL		(1) 1st Class Single Piece Letters (Cents/Piece)	(2) Unit Costs for Metered Letters (Cents/Piece)	(3) Unit Costs for Non-Metered Letters (Cents/Piece)	(4) Difference in Metered and Non-Metered Unit Cost (Cents/Piece)	(5) Percentage of Total Difference for Each Cost Pool	(6) Unit Costs for Bulk Entered Metered Letters (Cents/Piece)
mods	bcs/	1.731	1.766	1.708	0.058	-4.67%	1.766
mods	express	0.004	0.002	0.005	-0.002	0.17%	0.002
mods	fsm/	0.047	0.056	0.041	0.014	-1.15%	0.056
mods	ism/	0.251	0.219	0.272	-0.052	4.21%	0.219
mods	manf	0.036	0.031	0.040	-0.009	0.71%	0.031
mods	manl	1.829	1.646	1.946	-0.300	24.08%	1.646
mods	manp	0.005	0.003	0.006	-0.003	0.28%	0.003
mods	mecparc	0.003	0.003	0.002	0.001	-0.05%	0.003
mods	ocr/	0.559	0.678	0.484	0.194	-15.56%	0.678
mods	priority	0.009	0.005	0.011	-0.006	0.49%	0.005
mods	spbs Oth	0.012	0.014	0.011	0.003	-0.23%	0.014
mods	spbsPrio	0.002	0.004	0.000	0.004	-0.32%	0.004
mods	BusReply	0.018	0.007	0.025	-0.017	1.40%	
mods	INTL	0.026	0.014	0.033	-0.019	1.49%	0.014
mods	LD15	1.817	1.722	1.878	-0.156	12.53%	1.722
mods	LD41	0.038	0.057	0.026	0.030	-2.44%	0.057
mods	LD42	0.002	0.002	0.002	0.000	-0.01%	0.002
mods	LD43	0.390	0.426	0.368	0.057	-4.61%	0.426
mods	LD44	0.145	0.163	0.133	0.030	-2.44%	0.163
mods	LD48 Exp	0.000	0.001	0.000	0.001	-0.07%	0.001
mods	LD48 Oth	0.018	0.020	0.017	0.002	-0.19%	0.020
mods	LD48_SSv	0.011	0.011	0.011	0.000	0.01%	0.011
mods	LD49	0.209	0.224	0.200	0.023	-1.86%	0.224
mods	LD79	0.018	0.011	0.023	-0.012	0.97%	0.011
mods	MAILGRAM	-	0.000	0.000	0.000	0.00%	0.000
mods	Registry	0.004	0.003	0.004	-0.001	0.12%	0.003
mods	REWRAP	0.019	0.015	0.021	-0.006	0.46%	0.015
mods	1Bulk pr	0.004	0.004	0.004	0.000	0.03%	0.004
mods	1CancMPP	0.570	0.392	0.683	-0.292	23.39%	
mods	1EEQMT	0.037	0.026	0.044	-0.017	1.40%	0.026
mods	1MISC	0.118	0.069	0.148	-0.079	6.34%	0.069
mods	1OPbulk	0.099	0.083	0.109	-0.026	2.05%	0.083
mods	1OPpref	0.489	0.431	0.527	-0.096	7.69%	0.431
mods	1Platfrm	0.573	0.465	0.641	-0.176	14.16%	0.465
mods	1POUCHNG	0.402	0.394	0.407	-0.013	1.01%	0.394
mods	1SackS_h	0.048	0.042	0.052	-0.010	0.83%	0.042
mods	1SackS_m	0.024	0.011	0.033	-0.022	1.75%	0.011
mods	1SCAN	0.049	0.051	0.048	0.002	-0.20%	0.051
mods	1SUPPORT	0.115	0.094	0.128	-0.035	2.78%	0.094
mods	NMO	0.000	0.000	0.000	0.000	0.00%	0.000
mods	PSM	-	0.000	0.000	0.000	0.00%	0.000
mods	SPB	0.001	0.001	0.001	0.000	0.00%	0.001
BMCs	ssm	0.001	0.001	0.000	0.001	-0.12%	0.001
BMCs	Othr	0.003	0.002	0.004	-0.002	0.14%	0.002
BMCs	Pla	0.001	0.002	0.000	0.002	-0.13%	0.002
Non Mods		2.006	1.811	2.130	-0.318	25.55%	1.811
Unit Cost		11.742	10.980	12.227	-1.247	100.00%	10.581
FY 98 Volumes (in millions)		49,065	19,063	30,002			

Sources:

LR-H-106
Page II-10LR-H-106
Page II-10LR-H-106
Spreadsheet
CSTSHAPE.xls
sheet "METER"
row I

C2-C3

Ratio of
C4 row
difference
to C4 total
differenceLR-H-106
Page II-10

DECLARATION

I, Marc A. Smith, hereby declare, under penalty of perjury, that the foregoing Docket No. R97-1 interrogatory responses are true to the best of my knowledge, information, and belief.

11/20/97
Date

Marc A. Smith
Marc A. Smith

**Response of United States Postal Service Witness Degen
to Presiding Officer's Information Request #5**

20. Refer to LR H-146, pages IV-8 through IV-19. Please explain why IOCS tallies for operations unrelated to the MODS cost pool titles are included in the pools. For example, why are 44,877 in OCR costs found in the mods 11 bcs cost pool?

20. Response.

I believe that the question refers to pages VI-8 through VI-19 of LR-H-146, the crosswalk of CRA space categories to MODS-based cost pools.

The simple explanation is that the IOCS-based CRA space categories are based on the sampled employee's observed activity, while the MODS-based cost pool assignment is based on the employee's clocked-in MODS operation number. The data on pages VI-8 to VI-19 show that in cases where there are IOCS space categories that correspond to the cost pool title, the space category and MODS cost pool are consistent the vast majority of the time. However, the sampled employee's activity does not always correspond to the clocked-in MODS operation. Please see pages 6-7 of my direct testimony, USPS-T-12, and Tr. 12/6154 and Tr. 12/6273 for additional discussion. Apparent discrepancies between the space category and MODS cost pool titles can be the result of several phenomena:

- 1. There is not a one-to-one correspondence between IOCS space categories and the MODS cost pools. In particular, the "distribution" space categories (OCR, sorting to letter case, etc.) are defined such that**

**Response of United States Postal Service Witness Degen
to Presiding Officer's Information Request #5**

they encompass both distribution and allied labor. Employees assigned to allied and support operations will often be observed working in the vicinity of the direct operations that they support. For instance, if the data collector observes an employee performing an allied labor activity, the type of allied labor being performed is recorded in question 18d, part 2, and the type of distribution operation is recorded in question 19. The employee may be legitimately clocked into an allied labor (LDC 17) MODS operation, but the logic of program PIGGYF96 (LR-H-146) assigns the tallies to the space category using only the question 19 response, i.e., to the type of distribution operation being supported. This may create the erroneous impression that the employee working an allied labor MODS operation is performing distribution work.

2. The employee may be temporarily engaged in an activity that is different from the clocked-in operation. For such "incidental" activities, it may be inefficient for the employee to reclock. In this case, I might expect employees to be observed working operations which are physically adjacent to their assigned operation, or which are under the same supervisor. So, for instance, an employee assigned to a BCS operation might temporarily monitor an adjacent OCR as needed or directed. OCR and BCS are the only operations where this appears to be happening on a widespread basis; the effect on the cost distributions is mitigated by

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the similarity of the operations—i.e., both are letter automation operations.

3. The employee may have switched operations for a more extended period of time but not reclocked.
4. A few MODS operations simply do not have corresponding IOCS-based space categories. For instance, there is not an "accountables cage" space category to correspond to the Registry cost pool.
5. The clocked-in MODS operation number may be inaccurately recorded on the tally. Since entering the question 18 and 19 data involves hundreds of thousands of keystrokes, some errors are inevitable. Suppose that the data collector keys the MODS operation number into the CODES IOCS software incorrectly 0.1% of the time. One would then expect there to be about 167 errors in the MODS mail processing tallies (0.1% of 167,036). Note that there are only 1,287 cells in the MODS portion of the crosswalk matrix (39 MODS cost pools by 33 non-BMC space categories). Thus, the error rate would only have to be 0.77% ($1,287/167,036$) for there to be one tally with an erroneous MODS operation number for every cell in the matrix. Some errors in entering the MODS operation number will be innocuous. If the data collector mistakenly enters operation 211 instead of 210, the tally will still be assigned to the "1Platform" cost pool. However, transposing digits of

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the MODS operation number is likely to result in the assignment of a valid MODS number in a different cost pool, since there are hundreds of valid three-digit codes. While attention has focused on the entry of the MODS operation number, it also may be the case that the employee's observed activity was recorded incorrectly in questions 18 and 19. I would expect the actual error rates to be small. The effect of these types of errors, combined with a low error rate, would be to assign small amounts of cost to many space category/cost pool combinations "at random."

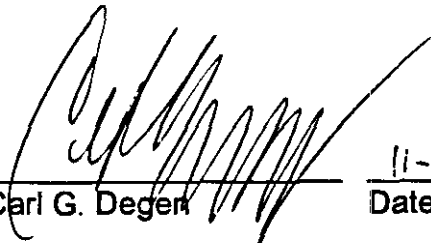
6. The RBCS keying operation is not sampled in IOCS. RBCS keying costs account for approximately 98% of LDC 15. Thus, the distribution of LDC 15 costs to IOCS space category should be disregarded.

Examining the data at pages VI-8 to VI-19 of LR-H-146, I conclude that the space categories and cost pool titles are generally consistent in the letter and flat distribution operations where the closest correspondences would be expected to be found. Excluding the overhead-related space categories (6521-6523, plus "00 Not Used" and "999999"), I observe that the "worst case" MODS distribution operation, OCR, has 76.7% of its costs assigned to the OCR space category, and 95.5% of its costs are assigned to letter automation (OCR plus BCS) space categories. The other letter and flat

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distribution cost pools are significantly more homogeneous, with 87.4% (BCS) to 95.8% (LSM) of the costs assigned to the corresponding space category. For the purpose of cost distribution, where homogeneous cost pools are desirable, the MODS-based cost pools are greatly superior to previous cost pools based on the IOCS CAG stratum and basic function, used in the LIOCATT process. The MODS-based cost pools also avoid tally cost weighting problems that would arise with a purely IOCS-based approach to operational cost pools (please see my responses to DMA/USPS-T12-13 and DMA/USPS-T12-18 for further discussion).


I, Carl G. Degen, declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.



Carl G. Degen 11-20-97
Date

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



Eric P. Koetting

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November 20, 1997